

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-10 IO-13 ISO-00 AGR-01 CIAE-00
DODE-00 PM-05 H-01 INR-10 L-03 NSAE-00 NSC-05
PA-01 SP-02 SS-15 ICA-11 AID-05 COME-00 FRB-03
TRSE-00 XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 STR-07
CEA-01 AF-10 ARA-10 NEA-10 /155 W
-----124400 171753Z /42

R 171541Z AUG 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 1145
INFO USMISSION GENEVA
USMISSION USUN NEW YORK
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 01 OF 02 BONN 14979

BRUSSELS ALSO FOR USEEC

E. O. 11652: GDS
TAGS: UNCTAD, ETRD, GW
SUBJECT: FOREIGN OFFICE POLICY PLANNING PAPER ON THE
COMMON FUND (CF)

REF: (A) BONN 4296 (B) BONN 2846 (C) BONN 703

1. THE AUGUST 14 ISSUE OF DIE WELT PRINTED A STORY BY
HEINZ HECK BASED ON A CONFIDENTIAL FOREIGN OFFICE PAPER
TITLED "COMMODITY AGREEMENTS AND THE COMMON FUND" DONE
BY THEIR POLICY PLANNING STAFF. THE PAPER RECOMMENDS
TO FOREIGN MINISTER GENSCHER THAT THE FRG ABANDON
ITS "HARD LINE" APPROACH TOWARD THE CF; IT ALSO
ARGUES AGAINST THE VIEW OF SOME MINISTERIES (E.G. THE
ECONOMICS MINISTRY) THAT THE CF IS SIMPLY A FURTHER
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STEP IN ATTEMPTED DIRIGISME OF COMMODITY MARKETS
ENCOURAGING THE G-77 IN THEIR DESIRE TO RAISE PRICES.

2. THE PAPER ARGUES FOR A CHANGE IN FRG POLICY ON TWO
MAJOR GROUNDS: ONE, THE CF WILL BE A PURELY FINANCING
VEHICLE BASED ON A POOLING OF CONTRIBUTIONS FROM
INTERNATIONALLY NEGOTIATED COMMODITY AGREEMENTS, PLUS

POSSIBLY A LIMITED NUMBER OF OTHER CONTRIBUTIONS, WHICH NECESSARILY MEANS IT WILL BE SMALL IN SIZE AND THEREFORE NOT IN A POSITION TO AFFECT MARKETS IN A DIRIGISTIC WAY. IN ADDITION, PRODUCERS WOULD NOT BE ABLE TO OVERRIDE CONSUMERS DUE TO A CAREFULLY WORKED OUT SYSTEM OF VOTING ON CF ACTIONS. SECOND, THE COST OF THE PROGRAM SHOULD NOT BE LARGE. THE PAPER ESTIMATES THAT THE MAJOR COST TO THE FRG WOULD BE ABOUT DM 500 MILLION IN DIRECT CONTRIBUTIONS SPREAD OUT OVER A PERIOD OF A COUPLE OF YEARS, PLUS SOME "NICHT QUANTIFIZIERBARE BELASTUNGEN" (NON-QUANTIFIABLE CONTRIBUTIONS) ASSESSED ON THE \$4 BILLION CF CREDIT FACILITY ESTIMATED BY UNCTAD AS NECESSARY TO ESTABLISH OPERATIONS.

3. THE PAPER CONCLUDES THAT A REVISION OF FRG POLICY IS ALSO NEEDED IN THE LIGHT OF POSSIBLE CHANGES IN U.S. POLICY TOWARD THE CF. DIE WELT QUOTES THE PAPER AS SAYING: "THE AMERICAN POLICY OF REJECTION (OF THE CF), BEHIND WHICH WE HAVE OPERATED UP TILL NOW, SHOWS SIGNS OF DISSOLUTION AND COULD SUDDENLY GIVE WAY."

4. ON TIMING, THE PAPER URGES THAT AGREEMENT BE ACTIVELY SOUGHT PRIOR TO THE MANILA CONFERENCE IN 1979, SINCE THIS WOULD LEAD TO A REDUCTION IN THE TENSIONS IN NORTH-SOUTH RELATIONSHIPS AND MIGHT HAVE THE INDIRECT

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EFFECT OF IMPROVING THE INVESTMENT CLIMATE FOR MINERALS' INVESTMENT IN THE THIRD WORLD.

5. WE HAVE CHECKED WITH VARIOUS SOURCES ON THE BACKGROUND OF THIS PAPER AND FIND THAT IT WAS A "THINK PIECE" TYPE EXERCISE DONE BY THE PLANNING STAFF OF THE FOREIGN OFFICE LAST NOVEMBER. IT WAS NOT TO BE RELEASED OUTSIDE OF THE FOREIGN OFFICE, EVEN TO OTHER MINISTERIES. WHILE IT HAD AND HAS NO OFFICIAL STATUS, IT CLEARLY REPRESENTS THE VIEWS OF THE COMMODITY POLICY DIVISION IN THE FOREIGN OFFICE, WHO HAVE BECOME MORE AND MORE INFLUENTIAL IN DETERMINING THE COURSE OF FRG COMMODITY POLICY OVER THE LAST SIX MONTHS. A MINISTRY OF ECONOMICS SOURCE TOLD US THE PAPER DOES NOT REPRESENT FRG OFFICIAL VIEWS AND IN HIS OPINION WAS LEAKED BY THE FOREIGN OFFICE TO TRY TO INCREASE PRESSURE FOR A CHANGE OF POLICY, PARTICULARLY PRIOR TO FRAU STEEG'S TRIP TO GENEVA IN EARLY SEPTEMBER FOR THE CONSULTATIONS WITH COREA ON RESUMPTION OF CF NEGOTIATIONS. A SOURCE CLOSE TO THE CDU THEORIZED THAT THE WHOLE THING HAS MUCH TO DO WITH GERMAN SENSITIVITY ABOUT EXERCISING A LEADERSHIP ROLE DURING THE EC PRESIDENCY PLUS AN ATTEMPT BY FOREIGN MINISTER

GENSCHER TO UPGRADE HIS IMAGE WITH INITIATIVES IN AFRICA
AND THE THIRD WORLD GENERALLY.

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 14979

ALSO USEEC

6. COMMENT: THE CURRENT FLURRY ON WHAT FRG POLICY
TOWARD THE CF SHOULD BE IS A FURTHER DEMONSTRATION OF THE
INTER-MINISTERIAL FIGHTING WHICH HAS CHARACTERIZED THE
DEBATE ON THIS ISSUE FOR SOME TIME. THE LAST FEW MONTHS
HAVE SEEN SOME RETREAT ON THE PART OF THE
ECONOMICS MINISTRY AND THE ASCENDENCY OF FOREIGN
OFFICE VIEWS. A GOOD PART OF THE FOREIGN OFFICE'S
ATTITUDE IS BASED ON SOMETHING MORE THAN TACTICAL
OR PERSONALITY REASONS. THERE IS ALSO A WIDESPREAD
FEELING THERE THAT SOMETHING DOES NEED TO BE DONE FOR
COMMODITY-DEPENDENT LDC'S AND THAT THE CF IS ONE WAY OF
DOING IT AT NOT TOO GREAT A COST. THERE IS
THE FURTHER STRATEGIC REASON ALWAYS LURKING IN GERMAN
MINDS, WHICH IS MORE OFTEN ASSOCIATED WITH THE JAPANESE,
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NAMELY, THE FRG IS A RESOURCE-POOR COUNTRY AND CAN NOT AFFORD TO DISMISS THE DESIRES OF SUPPLIERS SO LIGHTLY. NOW THAT THE DISCUSSION OF THIS ISSUE HAS BECOME MORE OPEN WITH THE PUBLICATION OF THE WELT ARTICLE AND OPPONENTS--INCLUDING THE CDU OPPOSITION--THREATEN TO STIR UP THE FLAMES, THE FOREIGN OFFICE MAY FIND IT MORE DIFFICULT TO CARRY THE DAY. ONE THING REMAINS ABUNDANTLY CLEAR, HOWEVER, AND THAT IS THAT THE INFLUENCE OF U.S. POLICY COULD WELL BE DECISIVE IN SHAPING THE FRG'S FINAL POLICY DECISION.
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